

**REPORT OF THE AUDIT OF THE
BRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
April 20, 2007 Through April 24, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
April 20, 2007 Through April 24, 2008

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the Bracken County Sheriff for the period April 20, 2007 through April 24, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,407,283 for the districts for 2007 taxes, retaining commissions of \$131,013 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,268,284 to the districts for 2007 taxes. Taxes of \$19,174 are due to the districts from the Sheriff and refunds of \$11,188 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Prepare The Annual Tax Settlement By September 1
- The Sheriff Should Distribute Tax Collections By The Tenth Of The Month

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Gary Riggs, Bracken County Judge/Executive
Honorable Charles Rechtin, Bracken County Sheriff
Members of the Bracken County Fiscal Court

Independent Auditor's Report

We have audited the Bracken County Sheriff's Settlement - 2007 Taxes for the period April 20, 2007 through April 24, 2008. This tax settlement is the responsibility of the Bracken County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Bracken County Sheriff's taxes charged, credited, and paid for the period April 20, 2007 through April 24, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Gary Riggs, Bracken County Judge/Executive
Honorable Charles Rehtin, Bracken County Sheriff
Members of the Bracken County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Prepare The Annual Tax Settlement By September 1
- The Sheriff Should Distribute Tax Collections By The Tenth Of The Month

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

November 7, 2008

BRACKEN COUNTY
CHARLES RECHTIN, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period April 20, 2007 Through April 24, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 909,724	\$ 645,298	\$ 1,000,986	\$ 300,815
Tangible Personal Property	50,263	26,887	30,716	57,905
Franchise Taxes	209,592	121,533	100,442	
Additional Billings	148	105	147	49
Bank Franchises	20,686			
Penalties	8,180	5,754	8,624	2,688
Adjusted to Sheriff's Receipt	9	8	5	(1)
Gross Chargeable to Sheriff	<u>1,198,602</u>	<u>799,585</u>	<u>1,140,920</u>	<u>361,456</u>
<u>Credits</u>				
Exonerations	5,939	4,213	6,873	2,698
Discounts	14,347	9,676	14,748	5,223
Delinquents:				
Real Estate	8,877	6,297	9,121	2,935
Tangible Personal Property	24	10	14	13
Franchise Taxes	<u>1,034</u>	<u>670</u>	<u>568</u>	
Total Credits	<u>30,221</u>	<u>20,866</u>	<u>31,324</u>	<u>10,869</u>
Taxes Collected	1,168,381	778,719	1,109,596	350,587
Less: Commissions (a)	<u>49,944</u>	<u>32,594</u>	<u>33,288</u>	<u>15,187</u>
Taxes Due	1,118,437	746,125	1,076,308	335,400
Taxes Paid	<u>1,127,664</u>	<u>727,028</u>	<u>1,078,234</u>	<u>335,358</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (9,227)</u>	<u>\$ (b) 19,097</u>	<u>\$ (c) (1,926)</u>	<u>\$ 42</u>

(a), (b), and (c) See Next Page

The accompanying notes are an integral part of this financial statement.

BRACKEN COUNTY
 CHARLES RECHTIN, SHERIFF
 SHERIFF'S SETTLEMENT - 2007 TAXES
 For The Period April 20, 2007 Through April 24, 2008
 (Continued)

(a) Commissions:

10% on \$ 10,000
 4.25% on \$ 2,086,999
 4% on \$ 200,688
 3% on \$ 1,109,596

(b) Special Taxing Districts:

Library District	\$ 8,890
Health District	1,446
Extension District	5,228
Soil Conservation District	(35)
Ambulance District	<u>3,568</u>

Due Districts or (Refund Due Sheriff)	<u>\$ 19,097</u>
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(c) School Districts

Bracken County School	\$ (469)
Augusta Independent School	(1,457)

(Refunds Due Sheriff)	<u>\$ (1,926)</u>
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BRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

April 24, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Bracken County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
April 24, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Bracken County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 24, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2007 through April 24, 2008.

Note 4. Interest Income

The Bracken County Sheriff earned \$3,108 as interest income on 2007 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Bracken County Sheriff collected \$19,657 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of November 7, 2008, the Sheriff owed \$7,819 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Bracken County Sheriff collected \$1,050 of advertising costs and \$1,340 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of November 7, 2008, the Sheriff owed \$1,050 in advertising costs to the county and \$1,340 in advertising fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Riggs, Bracken County Judge/Executive
Honorable Charles Rechtin, Bracken County Sheriff
Members of the Bracken County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Bracken County Sheriff's Settlement - 2007 Taxes for the period April 20, 2007 through April 24, 2008, and have issued our report thereon dated November 7, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bracken County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Bracken County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bracken County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bracken County Sheriff's Settlement - 2007 Taxes for the period April 20, 2007 through April 24, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Prepare The Annual Tax Settlement By September 1
- The Sheriff Should Distribute Tax Collections By The Tenth Of The Month

This report is intended solely for the information and use of management, the Bracken County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 7, 2008

COMMENTS AND RECOMMENDATIONS

BRACKEN COUNTY
CHARLES RECHTIN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 20, 2007 Through April 24, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Should Prepare The Annual Tax Settlement By September 1

The Sheriff presented his annual tax settlement to fiscal court on October 28, 2008. KRS 134.310 requires the Sheriff to settle his tax account "no later than September 1 of each year." We recommend the Sheriff prepare his annual tax settlement by September 1 as required.

Sheriff's Response: No response

The Sheriff Should Distribute Tax Collections By The Tenth Of The Month

The Sheriff did not report and distribute all taxes collected by the tenth of the following month as required. Test procedures revealed three instances in which franchise or property tax collections were not distributed by the tenth of the following month. KRS 134.300 requires the Sheriff to report and distribute each month's tax collections by the tenth of the following month. We recommend the Sheriff report and distribute all taxes collected by the tenth of the following month as required.

Sheriff's Response: No response

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties over tax receipts and disbursements. The Sheriff's office staff consists of one bookkeeper and one part-time employee who collect tax receipts along with the Sheriff. Each person enters tax bill receipts into the computer system when received, places receipts into their cash drawer, and prepares a deposit slip for their cash drawer. The daily deposit slips are agreed to the daily cash collection journal for each employee. The part-time employee posts daily receipts to the receipts ledger and prepares the monthly bank reconciliation. The bookkeeper prepares monthly tax distribution reports, tax payment checks and is an authorized signer on checks. The Sheriff does not require dual signatures on checks.

Segregation of duties over the described accounting functions is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Adequate segregation of duties also protects employees in the normal course of performing their daily responsibilities.

To provide protection against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should segregate duties over the receipt and disbursement of taxes. If these duties cannot be segregated, we recommend the following compensating controls be implemented to offset the lack of adequate segregation of duties:

BRACKEN COUNTY
CHARLES RECHTIN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 20, 2007 Through April 24, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:
(Continued)

The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

- The Sheriff should periodically compare the daily bank deposit to the daily cash collection journal and then compare the daily cash collection journal to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily cash collection journal, and receipts ledger.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document his review by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should review monthly reports and the disbursements ledger and agree amounts to tax distribution checks.
- The Sheriff should personally deliver monthly tax reports and tax distribution checks to the taxing districts and receive a signed receipt from the taxing districts.

Sheriff's Response: No response

